

VisitScotland

Annual Report to the Board and the Auditor
General for Scotland for the financial year ended
31 March 2016

7 October 2016



Key Messages

2015-16 has been another successful year for VisitScotland, with the delivery and hosting rights awarded for a number of high profile events including the 2019 Solheim Cup. VisitScotland has continued to demonstrate robust financial management and governance arrangements, which is important given declining funding levels and significant economic uncertainty. Progress has been made in mitigating the risks associated with the possible crystallisation of pension fund liabilities. VisitScotland is currently finalising its new Strategy and looking ahead it is important the organisation looks to manage the risks associated with declining grant funding and the uncertainty associated with European funding streams.

ISA 260 requirements: Financial Statements

We have issued an unqualified opinion on the VisitScotland 2015-16 Annual Report and financial statements.

The draft VisitScotland financial statements were provided in June 2016 and were supported by good quality working papers. The draft annual report was provided in August 2016.

We did not have any reason to change our audit plan during the year. We did not identify any control weaknesses during the course of our audit.

We did not identify any material numerical errors or misstatements during our audit.

We did however request disclosure changes to the narrative of the Accountability report, to bring disclosures in line with the updated 2015-16 FReM. We acknowledge that 2015-16 is the first year of reporting under the new framework.

Public Sector audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011).

Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015-2018.

Financial management and sustainability

VisitScotland continue to prepare budgets annually with timely and robust management and Board review. VisitScotland largely met all 2015-16 financial budgets and targets.

VisitScotland exceeded Scottish Government efficiency saving targets in 2015-16 and have made good progress in securing a written covenant for the Local Government Pension Funds. VisitScotland are in the final stages of an IRM for the British Tourism Board Pension Scheme, however management should ensure appropriate measures are in place, such that a settlement is not reached from the IRM in 2016-17, and direct Government intervention is subsequently required.

Scottish Government Grant-in-Aid funding continues to decline in 2016-17, and the recent decision for Britain to leave the European Union has created significant levels of uncertainty. VisitScotland should therefore consider their approach to medium to long term scenario planning.

Governance and Transparency

VisitScotland's governance statement meets the requirements of the Scottish Public Finance Manual (SPFM). Governance arrangements with partners remain transparent and reviewed on an annual basis. Governance continues to be a key agenda item for the Board.

VisitScotland has experienced significant levels of change in 2015-16 with five new Board members and a new Chair. VisitScotland has managed the transition process effectively.

VisitScotland should continue to ensure governance arrangements remain robust going forward and explore the risk appetite of the Board, and continue to re-engage with stakeholders. VisitScotland's internal auditors plan to conduct a review of Corporate and Board Governance in 2016-17.

Arrangements to prevent and detect fraud and corruption were reviewed with no issues identified. Arrangements for standards of conduct are deemed appropriate, with an up to date Code and Registers of Interests for all Board members and Senior Management in place.

Best Value and Performance

2015-16 was a successful year for the delivery and contribution to major events. Significant event wins such as the 2019 Solheim Cup hosting rights were also a highlight.

2015-16 was the final year of operation under the 2013-2016 Corporate Plan. VisitScotland successfully met the majority of internally set 2015-16 targets. Performance measurement and reporting procedures were reviewed and deemed to have appropriate levels of scrutiny and challenge demonstrated by annual Board approval.

VisitScotland implemented the first phase of the new Economic Performance Measurement Framework with completion expected in 2016-17. As expected and agreed within the Scottish Government, phased implementation of the new framework meant VisitScotland had limited comparative information against economic KPI's in the 2015-16 Performance Report. VisitScotland should ensure robust comparative information is available upon completion of the new framework, to meet FReM Performance Report requirements and best practise.

Contents



	Page
Introduction	4
ISA 260 Financial Statements communication with those charged with Governance	7
Public Sector Audit Impact dimension commentary:	
Financial management and sustainability	14
Governance and transparency	19
Best Value and performance	23
Appendices	26



1. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of VisitScotland 2015-16.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

The Auditor General for Scotland appointed Grant Thornton UK LLP as auditor of VisitScotland. Grant Thornton were appointed as the auditor of VisitScotland for the 5 year period 2011-12 to 2015-16. This appointment is made under the Public Finance and Accountability (Scotland) Act 2000.

Our annual audit report is addressed to those charged with governance and the Board at VisitScotland, and the Auditor General for Scotland. The report summarises our opinion and conclusions on significant issues arising from our audit. The scope of our audit work was set out in our Audit Plan, which was presented to the Audit and Risk Committee on the 11th of January 2016.

VisitScotland's responsibilities

It is the responsibility of VisitScotland and the Accountable Officer to prepare the financial statements in accordance with the HM Treasury Government Financial Reporting Manual (the FReM).

This means VisitScotland must:

- prepare financial statements which give a true and fair view of the financial position of VisitScotland and its income and expenditure for the year to 31 March 2016;
- maintain proper accounting records which are up to date;
- take steps to prevent and detect fraud and other irregularities.

VisitScotland is also responsible for establishing proper arrangements to ensure that:

- public business is conducted in accordance with the law and proper standards;
- public money is safeguarded and properly accounted for;
- economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

It is a condition of our appointment that we meet the requirements of the Code of Audit Practice ('the Code') which was published in May 2011, and is approved by the Accounts Commission and the Auditor General for Scotland.

The Code highlights the special accountabilities that are attached to the conduct of public business and the use of public money. This means that audits in the public sector must be planned and undertaken from a wider perspective than the private sector. Our responsibilities are outlined in **Figure 1**.

We are required to provide an opinion on the financial statements, consistency of information provided within the Performance Report and Accountability Report, and the audited elements of the Remuneration and Staff Report. Under the Code we are also required to review and report on the governance arrangements, Best Value, use of resources, and performance.

Under the requirements of the International Standards of Auditing (UK and Ireland) (ISA) 260: Communication with those charged with governance, we are required to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report to VisitScotland, together with previous reports to the Audit and Risk Committee throughout the year, discharges our ISA 260 responsibilities.

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Director of Corporate Services, the Head of Finance, the Financial Accounting Audit and Compliance Manager and the finance team during the course of our work.



Introduction

Figure 1: Our responsibilities under the Code of Audit Practice

Financial Statements

- Provide an opinion on:
- whether the financial statements provide a true and fair view of the financial position of VisitScotland
 - whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of expenditure and income

Corporate governance

- Review and report on VisitScotland's corporate governance arrangements as they relate to:
- VisitScotland's corporate governance and systems of internal control, including reporting arrangements
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption

Best Value and performance

- The Public Finance and Accountability (Scotland) Act 2000 gives the Auditor General the right to initiate examinations into the economy, efficiency and effectiveness with which VisitScotland and other public bodies have used their resources to discharge their functions.
- In accordance with guidance issued by Audit Scotland, the Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value.
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for VisitScotland at a local level or a review of VisitScotland's response to national recommendations. In 2015-16 we have completed an assessment of workforce planning at VisitScotland.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. ISA 260 Requirements: Financial Statements



ISA260 Requirements: Financial Statements

Introduction

Within this section of the report, we present our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) (ISA) 260.

We have not had to alter or change our audit approach, which we set out in our audit plan presented to the Audit and Risk Committee on the 11th of January 2016.

Our audit has now been completed.

Our Review of the Financial Statements

The draft financial statements of VisitScotland were prepared on time and working papers were of a good standard.

As part of our work on the financial statements, we are required to review the narrative elements (including the Performance Report, Sustainability Report and the Accountability Report), of the Annual Report and Financial Statements. We review the narrative elements of the financial statements for compliance with required FReM disclosures, for consistency with other areas of the financial statements and our knowledge of VisitScotland.

We have reviewed the narrative commentary against the requirements of the Government Financial Reporting Manual (the FReM). We acknowledge that 2015-16 was the first effective year of the updated FReM, which introduced alterations to disclosure requirements in the narrative parts of the financial statements.

Financial Statements Opinion

Subject to the completion of the outstanding work described, we expect to issue an unqualified opinion on the financial statements of VisitScotland for the year ended 31 March 2016.

Our audit did not identify any material numerical errors or misstatements. We did however identify disclosure changes, required to bring the financial statements in line with updated FReM requirements.

Regularity

We did not identify any instances of irregular expenditure or non-compliance with laws and regulations.

Whole of Government Accounts

VisitScotland remain below Audit Scotland's thresholds for submitting audited Whole of Government Account returns. The draft threshold for audit is £350 million. In accordance with guidance, we completed the prescribed checklist and submit this to the National Audit Office (NAO).

Our audit plan: a reminder

Scope of the Audit

Our audit plan outlined that we operate a risk based approach to the audit of the financial statements. We consider the inherent risks to VisitScotland and how these may result in a material misstatement in the accounts. At the planning stage we identified two areas with increased risk of material misstatement as outlined on pages 10 and 11.

Our audit approach requires increased audit focus on those areas where we have identified an increased risk of misstatement which includes consideration of the control environment for systems linked to those areas. Our substantive procedures include analytical review, confirmations with third parties and sample testing. Where we have identified a significant or other risk we require a higher level of testing to provide assurance. In performing those tests we have due regard to materiality as outlined below.

We recognise that planning is a continuous process and we monitor events at VisitScotland for any areas which may impact our planned audit work. In 2015-16 we did not identify any new areas of risk which would require us to change from the approach outlined in our Audit Plan.

Significant risks identified:

- management override of controls
- revenue recognition of retail and commercial income.

Overall materiality has been set at 2% of total resource expenditure at £1.16 million.

Other risk identified:

- Operating Expenses
- Employee Remuneration.

Performance materiality aims to reduce the possibility of uncorrected/ undetected misstatements exceeding materiality and is set at £0.867 million.

Application of Materiality

As outlined in our audit plan we apply the concept of materiality in line with the requirements of ISA 320: Materiality in planning and performing an audit. The assessment and application of materiality is a matter of auditor judgement.

The primary focus of the Board is to deliver funding for the purposes indicated by the Royal Charter. As such, we consider total resource expenditure to be the most appropriate materiality benchmark to meet the expectations of users.

Performance materiality is used to drive the level of testing conducted at VisitScotland. All balances or transactions that exceed the set level are subject to audit testing. This measure, along with the assessed level of inherent risk, is used to drive the level of sample testing.

In line with ISA 320 we also considered areas where account balances or disclosures for which misstatements lower than materiality could reasonably be expected to influence the economic decisions of users. We identified that cash and cash equivalents, related party transaction disclosures and disclosure of senior management salaries would fall within this category.

In line with ISA 540 we reported in our audit plan an amount below which misstatements would be clearly trivial and would not be reported to the Audit and Risk Committee. We have defined the amount below which misstatements would be clearly trivial to be £57,800 for VisitScotland.

Materiality reported within our audit plan was based on 2014-15 total resource expenditure therefore prior to commencing audit fieldwork, materiality was revised to reflect actual 2015-16 total resource expenditure.

Audit findings against significant risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan. There are two presumed significant risks which are applicable to all audits under auditing standards. However, as set out in our plan and below we rebutted the risk around revenue recognition.

Risks identified in our Audit Plan	Work completed	Assurances and issues arising
<p>1 Management override of controls</p> <p>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> Review of accounting estimates, judgments and decisions made by management Testing of journal entries Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
<p>2 The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA (UK&I) 240 and the nature of the revenue streams at VisitScotland, we determined the risk of fraud arising from revenue recognition can be rebutted for all revenue streams apart from those separately discussed below:</p> <p>Grant Revenues:</p> <ul style="list-style-type: none"> the majority of revenues is from grant-in-aid from the Scottish Government which is paid periodically by direct debit and aligns to the award letter and payment profile. There is therefore limited opportunity to manipulate reported revenues and limited incentive to manipulate. the culture and ethical frameworks of central government, including VisitScotland, means that all forms of fraud are seen as unacceptable. <p>Other Income:</p> <ul style="list-style-type: none"> the majority of other income (83.1%) is made up of local authority and European Regional Development Fund income which is paid periodically and aligned to award documentation. There is therefore limited opportunity or incentive to manipulate reported revenues. <p>Retail and Commercial Income is regarded as a significant risk and assurance will be gained with testing of:</p> <ul style="list-style-type: none"> review and testing of revenue recognition policies detailed walkthrough of control procedures perform analytical review and substantive testing. 	<p>Our work confirmed that revenue had been recognised appropriately in the financial statements.</p>



Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Audit findings against other identified risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Table 2: Reasonably possible risks identified at the planning stage

Transaction cycle	Description of risk	Work completed	Assurances gained and issues arising
Employee Remuneration	<p>Employee Remuneration accruals understated.</p> <p>Employee costs accounted for 39% of resource expenditure in 2015-16. There are a large number of transactions processed throughout the year and VisitScotland relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements.</p>	<p>We gained assurance over the risk through the:</p> <ul style="list-style-type: none"> • Review of the control environment through internal controls walkthrough testing • Sample testing of payroll transactions to employee contracts and copy payslips to ensure accuracy and existence of the employee. • Analytical procedures including trend analysis to identify areas of potential misstatement. • Review of year end accrual amounts against relevant payroll runs to ensure completeness of liabilities. 	<p>We gained sufficient assurance over employee remuneration to conclude that there are no material misstatements. In particular our testing of 39 payroll entries to supporting information did not identify any issues.</p>
Operating Expenses	<p>Operating Expenses/Creditors understated or not recorded in the correct period.</p> <p>VisitScotland incur expenditure to promote tourism in Scotland through marketing activities, partnership engagement and support services. In 2015-16 the cost of these activities was £57.79 million.</p> <p>Expenditure is aligned with specific projects which have been approved in line with VisitScotland's overall objectives.</p>	<p>We gained assurance over the risk through the:</p> <ul style="list-style-type: none"> • Review and walkthrough of the processes and controls in place within the operating expenses cycle. • Reconciliation of the creditors system to the general ledger and financial statements. • Testing of post year end expenditure transactions to determine whether they have been recorded in the correct period 	<p>We gained sufficient assurance over year end payables and operating expenditure to conclude that there are no material misstatements. In particular we tested 85 payments to supporting information and did not identify any issues.</p>



"Other risk areas are those which we have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work".

Accounting estimates and significant judgements

Assessment

- Marginal accounting policy which could potentially attract attention from stakeholders
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with VisitScotland’s financial statements.

Table 3: Accounting estimates and significant judgements

Accounting area	Summary of policy	Our comments	Our assessment
Revenue recognition	The policy noted within the financial statements states that income is received from a variety of retail and commercial operations, revenue grants, business partner contributions and other sources, and is recognised in the period in which it is receivable. Income from the sale of products, goods and services is recognised in the period in which ownership transfers or the service is provided to the extent that the income has been receivable. Grants and contributions are recognised in the period to which they relate.	The revenue recognition policies are appropriate under the Government Financial Reporting Manual. The disclosure in the draft accounts was found to be reasonable and in line with prior years.	●
Property, Plant and Equipment	Land and buildings are re-valued from initial recognition in line with guidance (5 year programme, 3 year interim). All Buildings are depreciated on a straight line basis over their expected useful lives between 30-50 years. Other assets have a range of useful lives from 4-25 years. Additions to assets over £2,000 are capitalised.	The revaluation programme is deemed to be reasonable. The current year is year five of the cycle, therefore a revaluation of land and buildings was conducted by Graham and Sibbald, who are a firm of RICS qualified chartered surveyors. Depreciation and capitalisation policies are considered to be reasonable and in line with the FReM.	●
Pension Fund valuations and liabilities	In accordance with IAS19, VisitScotland is required to account for retirement benefits when it is committed to giving them. This involves recognition in the Statement of Financial Position of VisitScotland's share of the new pension asset or liability together with a pension reserve. Estimation of the new liability to pay pensions depends on a number of complex judgements. Actuaries are engaged to provide VisitScotland with expert actuarial assumptions advice.	VisitScotland’s accounting policies are in line with FReM and IAS19 guidance. We have reviewed the competence, capability and objectivity of Hymans Roberson and Xafinity, who have been used as management’s experts in year. We have relied on an auditors expert, PriceWaterhouseCoopers LLP, to provide assurance over the reasonableness of assumptions and judgements provided by Hymans Robertson. We have relied on our internal actuarial team to provide assurance on the reasonableness of the assumptions and judgements provided by Xafinity. We have no concerns which we wish to highlight to members.	●
Other accounting policies	We have reviewed VisitScotland’s policies against requirements of the FReM and accounting standards.	Disclosures were in line with the FReM and considered reasonable.	●

Other areas of audit focus

Remuneration and Staff Report

The FReM requires central government bodies to produce a Remuneration and Staff report within the Accountability Report of the Annual Accounts and Financial Statements. The following elements of the report are fully audited and an audit opinion provided for:

- Remuneration policy
- Single total figure of remuneration for each director
- Compensation on early retirement or loss of office
- Fair pay disclosures
- Staff Report exit packages and analysis of staff costs

The following elements are audited for consistency with the financial statements and to ensure the disclosed information is in line with the auditors understanding of Visit Scotland:

- Staff composition (gender analysis)
- Sickness absence data
- Staff policies

No misstatements or consistency issues were identified from our audit of VisitScotland's Remuneration and Staff Report. Minor disclosure changes were processed by management to bring the report in line with the required framework.

Internal controls

We update our understanding of VisitScotland's operations and key financial control systems each year and tailor our audit strategy to focus on key risk areas.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. During our interim audit, we conducted control walkthrough testing on the following areas:

- Retail and Commercial Income
- Employee Remuneration
- Operating Expenditure and Creditors
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our testing of the systems listed above.

Going Concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of liabilities, arrears, operating cash flows and reserves
- Scottish Government 2016-17 grant-in-aid funding letter
- review of VisitScotland's financial forecasts and the assumptions which underpin the forecasted figures.

Overall we conclude that it is appropriate for VisitScotland to prepare the financial statements on a going concern basis.

Related Parties

VisitScotland are required to disclose material transactions with bodies that have the potential to control or influence VisitScotland or to be controlled or influenced by VisitScotland.

In year, VisitScotland have disclosed related party transactions with other Government bodies and companies totalling £0.393 million.

We have used computer aided audit techniques to search for undisclosed related parties and identified two minor omissions. After discussion with management a further £9,000 of related party transactions were included in the revised financial statements.

Sustainability reporting

The FReM requires central government bodies to include a section in their annual report which outlines the economic, social and environmental factors impacting the organisation. This is to be presented in a Sustainability Report.

Public Sector Sustainability Reporting- Guidance on the Preparation of Annual Sustainability Reports was published by the Scottish Government and outlines the minimum reporting requirements covering areas such as:

- greenhouse gas emissions
- waste minimisation and management
- finite resources
- action on biodiversity
- sustainable procurement.

VisitScotland publish the Sustainability Report as a separate report accessible via their website and linked within the financial statements. VisitScotland have maintained the disclosures in the Annual Report and Financial Statements to include summary sustainability information within the body of the report which is in line with the minimum reporting requires of the Scottish Government.

3. Financial Management and Sustainability



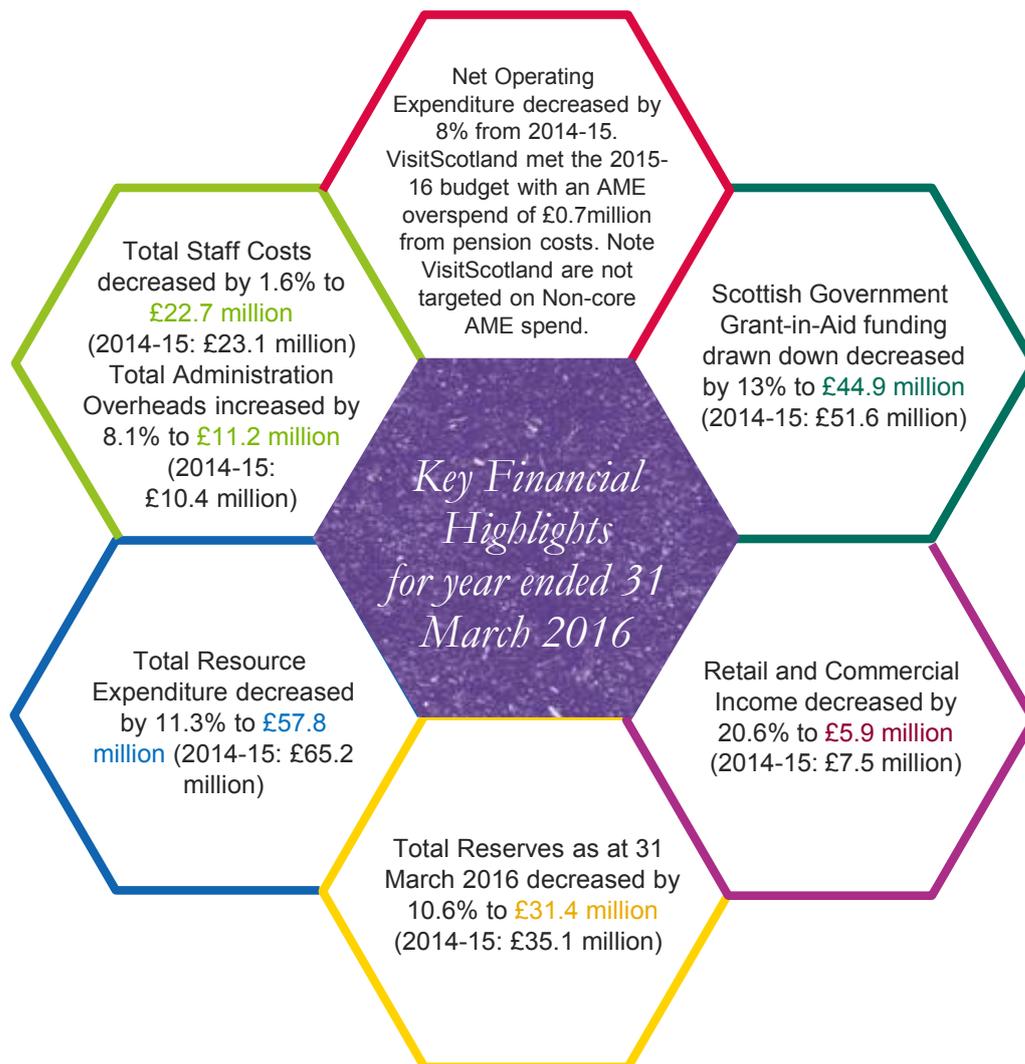
Financial Management

Introduction

Good financial management is underpinned by sound budgetary process and a robust control environment. In order to be financially sustainable VisitScotland will require robust financial management in the short term but will also need to look forward to the medium and longer term to establish the ability to deliver services with declining available resources and economic uncertainty.

In this section we review and comment on VisitScotland’s achievement of financial objectives and assess VisitScotland’s financial management and sustainability arrangements.

Key Financial Statement highlights for the financial year ended 31 March 2016 were:



Use of VisitScotland Resources

VisitScotland's total resource expenditure decreased by 11.3% to £57.8 million from £65.2 million in 2014-15. The majority of this decrease as demonstrated at Figure 2, was in relation to marketing activities that decreased from £53.8 million in 2014-15 to £47.6 million in 2015-16. Marketing activities mainly related to spend on specific core projects. The spend on projects is monitored on a project by project basis and operates on a calendar year basis rather than a financial year basis.

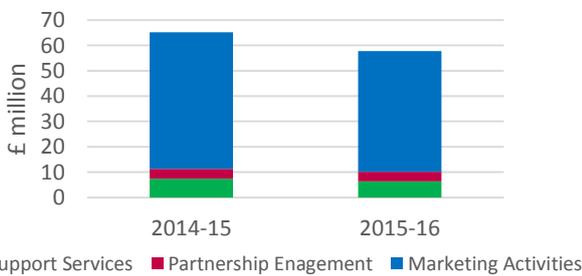


Figure 2: VisitScotland Total Resource Expenditure (Source: 2015-16 Annual Report and Financial Statements)

Within the 2015-16 budget, VisitScotland allocated expenditure across 51 PID's. VisitScotland demonstrate robust budget management with only 9% of PID's resulting in minor overspends. Overall, PID's expenditure was delivered on budget with a minor underspend of £2,000.

As shown at figure 3, VisitScotland spent £10.6 million of expenditure on 15 key PID events over 2015-16.

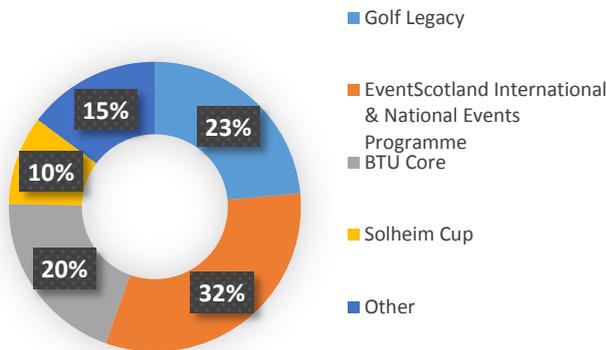


Figure 3: VisitScotland Events Directorate Actual Spend (Source: 2015-16 Key Performance Measures Report to Board)

During 2015-16, VisitScotland continued to offer a voluntary redundancy scheme. VisitScotland accounted for 21 voluntary redundancies amounting to £0.554 million in the 2015-16 financial statements. VisitScotland have continued to review its structures to ensure it is as effective as possible. As a result, Figure 4 highlights that average staff numbers have continued to decrease year on year from 2012-13.

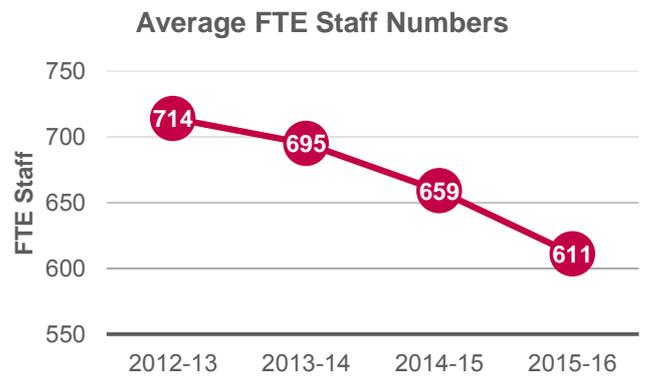


Figure 4: VisitScotland Average FTE staff numbers (Source: 2015-16 Annual Report and Financial Statements)

VisitScotland Income

VisitScotland's income is accounted for across 4 categories in the 2015-16 financial statements as shown at Figure 5.

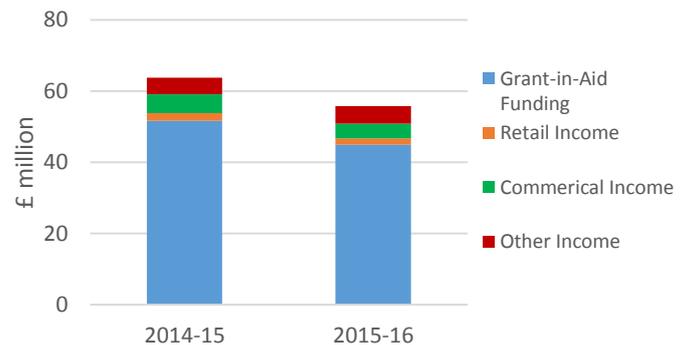


Figure 5: Sources of Income at VisitScotland (Source: 2015-16 Annual Report and Financial Statements)

VisitScotland's primary source of income is from Scottish Government grant-in-aid funding (GIA). Visit Scotland's drawn down GIA funding reduced by 13% from £51.6 million in 2014-15 to £44.9 million in 2015-16, reflecting an overall reduction in Scottish Government funding allocations. Note Scotland hosted the Ryder Cup in 2014-15, which subsequently contributed to the decline in GIA funding.

Retail, Commercial and Other Income sources, which combined accounted for approximately 19% of VisitScotland's 2015-16 income, including GIA resource, underwent a 2.3% decline year on year.

VisitScotland's Financial Position

VisitScotland's statement of financial position reflects a £3.7 million decrease in net liabilities during 2015-16 from £35.1 million to £31.4 million.

	Year Ended 31 March 2016 (£m)	Year Ended 31 March 2015 (£m)
Non-current assets	6.232	8.494
Current Assets	8.749	7.240
Current Liabilities	(10.997)	(8.947)
Non-Current Liabilities	(35.602)	(41.845)
Total Net Liabilities	(31.353)	(35.058)

The movement in non-current assets take account of land and buildings revaluations, asset impairments, additions and the annual depreciation charge for the year.

The movement in current assets is due to an increase in trade and other receivables which has increased by £1.983 million from 2014-15. The increase relates to committed Scottish Government ring fenced funding of £1.7 million for the Scottish Golf Open which was not received as at 31 March 2016.

The movement in current liabilities is due to an increase in trade and other payables which increased by £2.025 million from 2014-15. This increase relates to £1.7 million of ring fenced committed expenditure for the Scottish Golf Open which VisitScotland are obliged to support to 2020. The expenditure was not paid in 2015-16 due to the delay in receiving Scottish Government ring fenced funding.

The movement in non-current liabilities is due to a 17% decrease in retirement benefit obligations from £39.8 million in 2014-15 to £34.1 million. The decrease primarily relates to the Local Government Pension Schemes and reflects changes in actuarial assumptions.

All other movements in the year are marginal.

VisitScotland's Pension Funds

VisitScotland are members of a number of Local Government Pension Funds and amounts become payable when there are no longer contributions to be paid. As detailed within Appendix B, the risk of crystallisation of the pension funds was highlighted in the prior year and it was recommended that VisitScotland consider the options available to mitigate this risk. VisitScotland have now agreed a covenant with the Scottish Government on the Local Government Pension Funds and as at the time of writing this report, VisitScotland were proceeding to formal signing. The British Tourist Board (BTB) faces a risk regarding the deemed strength of a Scottish Government covenant. VisitScotland are in the completion stages of an independent Integrated Risk Management review which will be shared with the pension regulator, with the overall aim of reaching a settlement. If this settlement fails, direct Government intervention would be expected. [See appendix A action point 1.](#)

Financial management and budgetary control

Monthly monitoring of budget to actual results is reported internally to members of senior management. Formal updates are provided to Senior Management on a monthly basis. The updates identify any variances to budget and highlight any areas of particular significant to senior management.

Budgets are set annually and are largely influenced by both the revised annual Corporate Plan and the Operations Plan. In addition, comprehensive progress reports on performance and budgets are provided to the Board as a standing item. Monitoring reports to the Board include performance against targets outlined in the Operating Plan and risk register.

The Annual Report and Financial Statements are scrutinised by the Audit and Risk Committee, before they are passed for Board approval.

VisitScotland's financial management has remained robust over 2015-16, with budget monitoring being clearly communicated and monitored by the Senior Management Team.

Financial Planning and Sustainability

VisitScotland set an annual budget which is subsequently reviewed and approved by the Board. Budgeted annual expenditure is split across VisitScotland’s various approved PIDS and monitored accordingly.

VisitScotland successfully met the 2015-16 budget, and exceeded the 2015-16 Scottish Government efficiency savings target of £1.2 million by identifying £1.8 million of savings in the following areas:

- Procurement - £0.5 million
- Organisational Change (including benefits derived from voluntary redundancy, and non-replacement of senior staff), and Shared Services - £1.3 million.

Declining Grant-in-Aid funding remains high risk within VisitScotland’s risk register. Original resource allocations for 2016-17 is 5.4% less than the original resource allocation awarded by the Scottish Government in 2015-16.

	2015-16	2016-17	Variance
<i>VisitScotland Grant-in-Aid Original Resource Allocations</i>	£48.4m	£45.9m	-£2.5m

VisitScotland should consider the potential impact of further decline in GIA funding.

The UK’s recent decision to leave the European Union has inflicted further uncertainty on the Scottish Economy. VisitScotland currently expect to receive in the region of £4 million per year in European Regional Development Funding. Management expect this funding to continue until 2018. The long term impact that Brexit is likely to have on the Scottish economy, and more significantly the Scottish Tourism Industry, is currently highly uncertain. It is acknowledged that it is difficult to make longer term financial plans due to the short term nature of GIA funding settlements, and uncertainty around future policy announcements. VisitScotland should consider their approach to medium to long term scenario planning, in order to identify whether there is scope to consider potential medium to long term strategic and financial planning.

[See appendix A action point 2.](#)

Workforce Planning

Costs of employment accounts for 39% of VisitScotland’s total resource expenditure. With increasing financial pressures, there is a need for VisitScotland to have an effective and efficient workforce in order to maintain service delivery while meeting budget requirements.

In 2015-16 we conducted a review of workforce planning arrangements at VisitScotland. VisitScotland does not have a formalised centrally integrated workforce plan, however each directorate addresses workforce planning annually through the PID planning process. VisitScotland also produces project specific workforce plans when organisational change is anticipated.

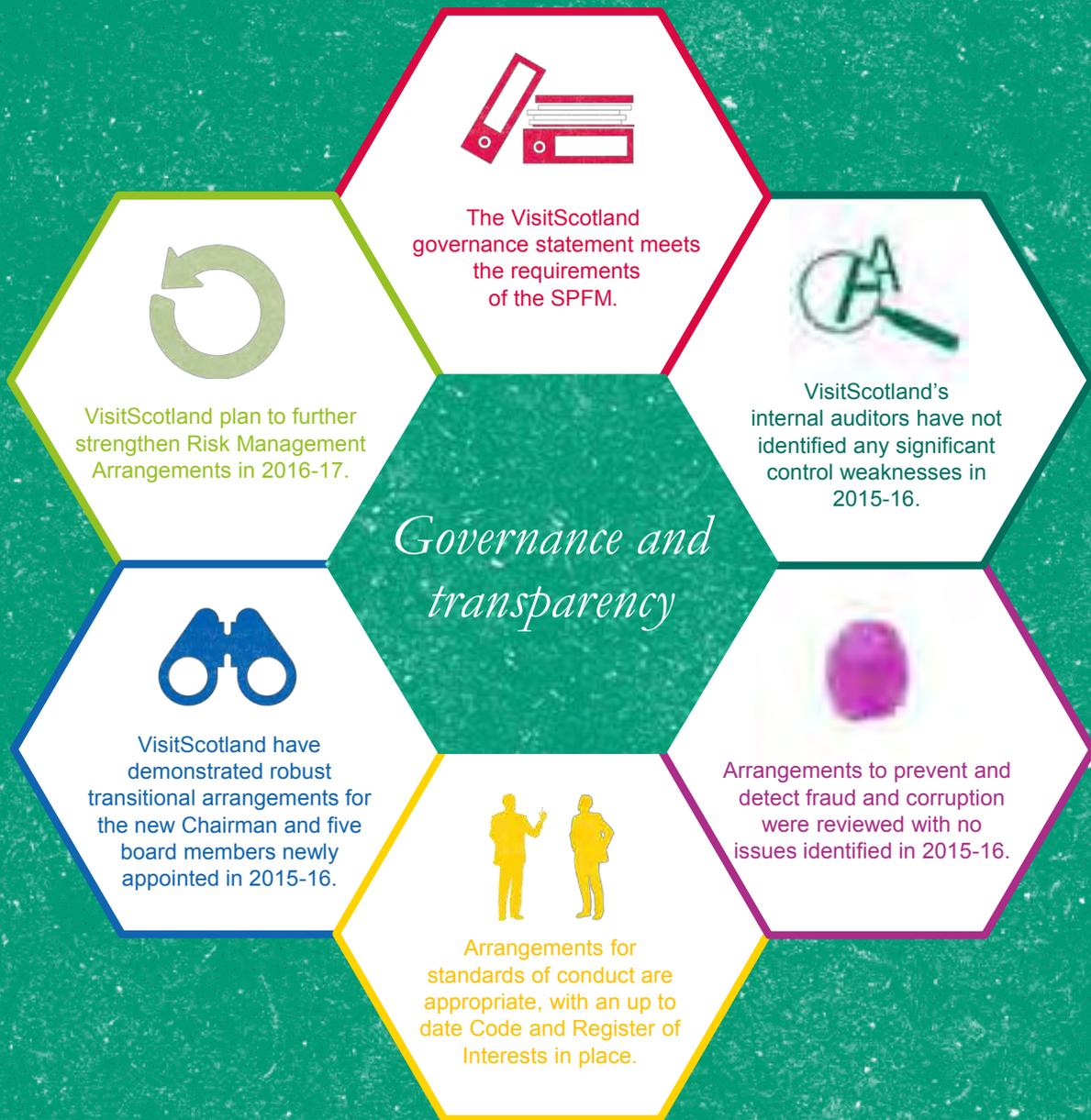
Skill mix requirements and staff costs are considered as part of the corporate and operational annual plan setting process, however VisitScotland currently adopts a more informal approach to succession planning. From discussions with management it is anticipated that a revised 2016 People Strategy will focus on Talent Management and take a more formal approach towards workforce succession planning.

VisitScotland should consider the implications of changing workforce requirements and how this fits with key performance indicators by considering a formalised organisation wide workforce plan, which includes a formalised approach to succession planning.

[See appendix A action point 3.](#)



3. Governance and transparency



Governance and transparency

Governance Statement

Under the Treasury's Financial Reporting Manual (FReM), the Board must prepare a Governance Statement within the Annual Report and Financial Statements. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the Governance Statement as it forms a key summary of the VisitScotland governance ethos, and provides assurances around the achievement of the organisation's strategic objectives.

The SPFM does not prescribe a format for the Governance Statement, but sets out minimum reporting requirements and methodology for obtaining assurance for central government bodies. In line with the SPFM the Directors complete a self assessment on an annual basis using the Scottish Government Internal Control Checklist.

We have reviewed the VisitScotland Governance Statement as part of our audit procedures and concluded that disclosures are in line with the requirements of the FReM and guidance issued from Scottish Ministers, through the SPFM. The statement is sufficiently balanced, reflecting key aspects of the VisitScotland governance structure.

Governance and scrutiny arrangements

The corporate governance framework within VisitScotland is centred around the VisitScotland Board consisting of 8 non-executive members and the Chair.

The Chair of the Board retired from duties on 31st of March 2016, and the newly appointed Chair took over from 1st of April 2016. Additionally, five board members retired from duties on 30 November 2015. VisitScotland successfully recruited 5 new board members in 2015-16.

During 2015-16, VisitScotland arranged appropriate transitional arrangements which included presentations and information packs provided by each of VisitScotland's core departments and the Chief Executive. The Chairman additionally received one to one meetings with every board member, and is currently in the process of completing introductory stakeholder meetings across Scotland.

In our view VisitScotland has managed the new Board appointments and transition process effectively. VisitScotland should continue to use the opportunity of significant Board change to re-engage with stakeholders. See [appendix A action point 5](#).

The Board is supported by the following two committees:



The Board, supported by its committees, meets every two months and is responsible for the strategy, performance and internal control framework of VisitScotland. The Board aims to fulfil the legislative powers of the organisation along with those outlined by the Direction of Scottish Ministers.

The Board have delegated responsibility for scrutiny to the Audit and Risk Committee which meet every two months. Grant Thornton are in attendance at the meetings and we have noted that scrutiny is exercised across a number of key areas including:

- Financial health of VisitScotland
- Internal audit work programme and report
- External audit reports
- Whistle blowing and fraud
- Legislative compliance.

The Terms of Reference (TOR) for the Audit and Risk Committee was reviewed and revised in August 2014 to state a minimum number of four Board members was required to sit on the committee. The TOR was then revised in April 2016 to change the minimum number of members required to three. As at 31st of March 2016, there were three active members of the Audit and Risk Committee. VisitScotland should ensure the impact of reducing the required number of committee members, in terms of an increased risk of breaching the quorum of two members attending all meetings, has been fully considered.

Governance and scrutiny arrangements cont.

A further requirement of the Terms of Reference is that the Audit and Risk Committee will conduct a self-assessment of its effectiveness. We note that a 2015-16 self-assessment has been completed by each member, however the results of this were awaiting analysis at the time of preparing this Annual Audit Report. Given the recent Board appointments, it is important that VisitScotland fully consider the results of the recent assessment and continue to conduct self-assessments against the requirements of the Scottish Public Finance Manual on a timely annual basis. Internal Audit are due to audit Corporate and Board Governance in August 2016, therefore management expect the results of the self-assessment to be independently scrutinised at this time.

Risk Management

VisitScotland's Annual Governance Statement discloses its approach to risk management.

In 2015-16, VisitScotland updated its approach to risk management to encourage increased risk ownership across all management levels. A corporate risk register is in place, which links clearly to sub registers, organisational planning and key projects ongoing within the period. VisitScotland's 2013-2016 Corporate Strategy is clearly linked to the corporate risk register through 7 sub strategies.

The corporate risk register is now available electronically via VisitScotland's SharePoint system. This has resulted in delegated actions being assigned to members of the senior management team in order for ownership to be established and monitored. Mitigating actions are further allocated to Department Heads. Updates on all actions are provided on a quarterly basis to the Audit and Risk Committee and summary information on high risk areas provided to the Board.

Internal Audit conducted an independent review of risk management in November 2015, and concluded that VisitScotland had robust risk management procedure in place and as an organisation Internal Audit stated that VisitScotland are 'Risk Defined' in terms of risk maturity. Internal Audit plan to lead a 'Risk Appetite' session with VisitScotland in 2016 in order to guide members responses to risks identified. This will further add to the robustness of VisitScotland's risk management structure. [See appendix A action point 4.](#)

Key areas of continuing high risk on the corporate risk register include:

- The risk that macro-economic matters such as EU exit, austerity, inflation and exchange rate fluctuations and changes to consumer income and spending impact negatively on the visitor economy.
- The risk that a change in Government or new project delivery models could lead to review of VisitScotland's structure and operations.
- Deficit planning with regards to the BTB Pension Scheme identifies a requirement for a large increase in employer contributions.
- The risk that the organisation does not attract staff and retain key skills across the organisation.
- The risk that non Scottish Government grant long term funding and income generation plans are not sufficient to meet long term objectives.

VisitScotland have made robust improvements to the risk management system in 2015-16.

Internal Audit

The Board's internal audit function is provided by Scott Moncrieff. Internal audit provide an annual opinion to the Audit and Risk Committee on the assurance framework. In 2015-16, they issued the following opinion:

"In our opinion VisitScotland has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks. Proper arrangements are in place, in the areas we have reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation."

The internal audit reports throughout the year highlight a high level of compliance with no high risk recommendations being made.

Some of the 2016-17 areas of internal audit focus include the following:

- Corporate and Board Governance
- Records Management
- Information Management
- Performance Management and Reporting.

Prevention and detection of fraud and irregularity

The integrity of public funds is a key concern for the organisation and for auditors. As external auditors, we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.

VisitScotland's fraud prevention/whistleblowing policy was reviewed during 2015-16 as part of a new annual process on the reporting of fraud and whistleblowing. No whistleblowing calls occurred in year.

Our enquiries of management and the VisitScotland's internal auditors found that there were no internal frauds during 2015-16.

VisitScotland also participates in Audit Scotland's National Fraud Initiative. We followed up on the 2014-15 cycle as part of our audit process. We note all 548 matches were investigated and closed off in 2015. One minor overpayment was identified and fully recovered.

From our work in 2015-16 we have concluded that VisitScotland has effective arrangements in place for the prevention and detection of fraud.

Arrangements for maintaining Standards of Conduct and detection of corruption.

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, VisitScotland has established a Code of Conduct for Board Members, which was approved by Scottish Ministers. A register of interests is available for each Board member on the VisitScotland website, and declarations of interest are made at each Board meeting.

In accordance with the Code of Audit Practice we have reviewed the arrangements in place for the prevention and detection of corruption and concluded that VisitScotland has appropriate arrangements in place. We are not aware of any specific issues that we need to record in this report.



4. Best Value and Performance



Best value and Performance

Demonstrating Best Value

2015-16 marks the final year of VisitScotland’s 2013-16 Corporate Plan which outlines how VisitScotland will meet the Scottish Government’s National Performance Framework.

VisitScotland’s core objective supports the overarching purpose outlined within the 2015 revised plan, **‘To contribute to the Tourism 2020 Strategy ambition of growing tourism revenues by £1bn by 2020 from a baseline of £4.5bn.’**

VisitScotland’s core objective adopts the following 7 strategies aligned to *Scotland’s Economic Strategy* published by the Scottish Government. VisitScotland’s 7 strategy areas form the basis of the VisitScotland performance framework:

- Marketing: VisitScotland launched a new global marketing strategy in February 2016, ‘The Spirit of Scotland’. The marketing strategy aims to recruit as many brand ambassadors for Scotland as possible.
- Events
- Internationalisation
- Customer Experience
- Quality and Sustainability
- Inclusive Tourism
- Working in Partnerships

The Corporate Plan is prepared in the wider context of Scotland’s economic strategy. VisitScotland therefore aims to measure performance through the National Performance Framework. An annual operational plan is constructed to further translate strategic objectives.

The Corporate Plan is annually revised, and the 2017 Corporate Plan is a continuation of VisitScotland’s core objective to contribute to the Tourism 2020 strategy. The 2017 Corporate Plan is currently in draft form, with the expectation of being Board approved by October 2016.

All public sector Accountable Officers have a duty to secure Best Value in public services as set out by the SPFM. VisitScotland has a range of mechanisms for securing Best Value in its investments and these are considered to be part of business as usual and embedded within VisitScotland’s ‘Road Map to Success’ shown at Figure 6 below:

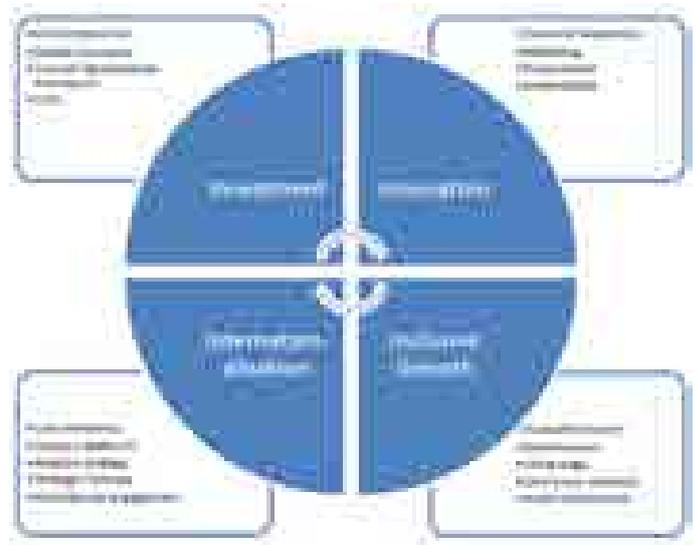


Figure 6: VisitScotland ‘Road Map to Success’ (Source: 2013-16 Corporate Plan 2015 Revision)

The VisitScotland Road Map to Success is built around four key areas of importance which are further broken into four measurable categories. VisitScotland set goals and objectives under each in order to ensure best value of investment is optimal. We have no concerns over VisitScotland’s approach to ensuring best value.

Performance Measurement and Reporting

VisitScotland’s Annual Operating Plan supplements the 2013-2016 Corporate Strategy. The Annual Operating Plan details project targets and key performance measures.

Performance monitoring forms a regular agenda item for the Board, and the senior management team hold responsibility for monitoring performance against key performance measures.

During 2015-16, VisitScotland introduced a new Economic Measurement Framework with a two-pronged approach reflecting monetary contribution to the wider visitor economy and economic activity generated through VisitScotland’s influence on it’s stakeholders. 2015-16 was a transition year for VisitScotland as the first phase of the new Economic Measurement Framework was successfully embedded. The second phase of the Framework is expected to be completed in 2016-17. As a result of 2015-16 being a transition year for the new framework, VisitScotland were unable to report performance against economic benefit performance targets within the 2015-16 Annual Report using comparative indicators. Due to the phased approach, this was expected and agreed with the Scottish Government, as comparative information available would have presented misleading information to the reader. VisitScotland should continue to take appropriate steps to ensure robust comparative information is available following the second transition phase in 2016-17. [See appendix A action point 6.](#)

In addition to economic benefit performance targets, VisitScotland monitor performance against internal targets outlined at figure 5 below. The only target that was not met with 2015-16 was in relation to visitor footfall numbers to visitor information centres. Management acknowledge that this performance measure is demand based therefore achievements within a close proximity of target is deemed reasonable. Excluding VIC footfall, VisitScotland exceeded all other target categories.

Figure 5: Summary Performance Measures

	Achieved	Target
Cumulative efficiency savings - single year	£1.8m	£1.2m
Cumulative efficiency savings - from 2008	£15.2m	£7.4m
Visitor footfall to VICs	3.16m	3.36m
Level of CO2 emissions	1548 tonnes	not to exceed 2174 tonnes

Source: 2015-16 Annual Report and Financial Statements

Key Performance Highlights

2015-16 marked a successful year for VisitScotland in maintaining the legacy of 2014, delivering several high profile events and securing the hosting of further significant future events.

VisitScotland delivered various successful events in 2015-16, including The World Gymnastics Championships, 144th Scottish Golf Open, The World Orientation Championships and the Glasgow Indoor Grand Prix.

The Themed Years of 2015 (Food and Drink) and 2016 (Innovation Architecture and Design), have encouraged vast stakeholder engagement and partnership working with all 32 local authorities in Scotland.

In February 2016, VisitScotland launched ‘The Spirit of Scotland’ marketing campaign which resulted in further digital information provision via a new website. VisitScotland reported within the 2015-16 Annual Report a significant increase in social media presence (157% increase in Facebook fans and a 122% increase in Twitter followers).

2016-17 is set to showcase Scotland as the ‘Perfect Stage’ for events including:

- Celtic Connections
- Spirit of Speyside Whiskey Festival
- World Mountain Bike championships 2016
- The Open and The British Senior Men’s Open.

In October 2015, Scotland was successful in winning the hosting rights for the 2019 Solheim Cup from the Ladies European Tour. In partnership with the Scottish Government, VisitScotland is involved in the project delivery of the event, and project governance arrangements have now been agreed by the Board.

Appendices

Contents	Page
Appendix A – Action Plan	27
Appendix B – Follow up of prior year actions	29
Appendix C – Fees, non audit services and independence	30
Appendix D – Draft Independent Auditor’s Report	31
Appendix E – Draft Letter of Representation	33



Appendix A- Action Plan

The table below provides details of issues for action as discussed with management during the audit.

Issue and Risk	Priority	Recommendation
<p>1. Retirement Benefit Obligations</p> <p>VisitScotland have made good progress in being at the final stages of securing a written covenant from the Scottish Government for the Local Government Pension Funds. VisitScotland are currently at the completion stage of the independent IRM review of the BTB pension scheme, with the aim of a settlement being reached.</p> <p>Risk: There remains a risk that a settlement for the BTB pension scheme will not be reached as a result of the IRM resulting in direct Government intervention.</p>	<p>Medium</p>	<p>VisitScotland should continue to take appropriate steps to closely monitor the completion of the IRM and prepare for the possibility of direct Government intervention.</p> <p>Management Response: Recommendation Agreed Action Owner: Ken Neilson – Director of Corporate Services Date of Completion: 31 March 2017</p>
<p>2. Scenario Planning</p> <p>The recent Brexit result along with declining GIA support has created significant levels of uncertainty for VisitScotland.</p> <p>Risk: There is a risk that long term financial and economic uncertainties are not being fully explored against best practise.</p>	<p>Medium</p>	<p>VisitScotland should continue to consider their approach to medium to long term scenario planning, in order to identify if there is any scope to consider mitigating actions to combat future financial and economic uncertainties.</p> <p>Management Response: Recommendation Agreed Action Owner: Ken Neilson – Director of Corporate Services Date of Completion: 31 March 2017</p>
<p>3. Workforce Planning</p> <p>Skill mix requirements and staff costs are considered as part of the Corporate Planning and PID planning process however VisitScotland has not formalised an organisation wide workforce plan.</p> <p>Risk: There is a risk that VisitScotland are not fully considering the impact of required staff numbers in regards to the corporate plan targeted outcomes during the annual budget setting process.</p>	<p>Low</p>	<p>VisitScotland should consider the implications of the changing workforce requirements and how this fits with the corporate plan targeted outcomes when preparing their annual budget, by formalising an organisation wide workforce plan.</p> <p>Management Response: Recommendation Agreed Action Owner: Alex Brogan – Head of Human Resources Date of Completion: 31 March 2017</p>
<p>4. Transitional Arrangements for new Members</p> <p>In 2015-16 VisitScotland has experienced significant changes at board level with six new members (including the Chair). Robust transitional arrangements were implemented in year.</p> <p>Risk: With the significant degree of change to the Board in 2015-16, there is a risk that the board are not providing the most appropriate approach to risk when decision making.</p>	<p>Medium</p>	<p>VisitScotland should continue to implement robust transitional arrangements that particularly explore the risk appetite of the Board in 2016-17.</p> <p>Management Response: Recommendation Agreed Action Owner: Malcolm Roughead – Chief Executive Officer Date of Completion: 31 December 2016</p>

	Issue and Risk	Priority	Recommendation
5.	<p>Value of a Fresh Perspective</p> <p>The newly appointed Chair and five Board members has provided an opportunity for VisitScotland to re-look at its culture and future strategic vision from a new and fresh perspective.</p> <p>Risk: There is a risk that VisitScotland does not take the opportunity to re-engage with stakeholders and challenge the future direction of the organisation.</p>	Medium	<p>We recommend that VisitScotland continue to use the opportunity to re-engage with stakeholders and fully consider challenges facing the future direction of the organisation.</p> <p>Management Response: Recommendation Agreed Action Owner: Malcolm Roughead – Chief Executive Officer Date of Completion: 31 March 2017</p>
6.	<p>Performance Reporting</p> <p>2015-16 marked the first implementation phase of the new Economic Measurement Performance Framework. The second phase is due for completion in 2016-17. As expected and agreed with the Scottish Government, VisitScotland had limited comparative information available to report against target KPI's in the 2015-16 Performance Report. Due to the phasing of the new framework, reporting comparative information would have been misleading to the reader.</p> <p>Risk: There is a risk that robust comparative performance information will continue to be unavailable for scrutiny in 2016-17.</p>	Medium	<p>VisitScotland should continue to take appropriate steps to ensure the successful implementation of phase 2 of the Economic Measurement Performance Framework. VisitScotland should further ensure robust comparative performance information is available for scrutiny and reporting in the 2016-17 Performance Report as required by the FReM.</p> <p>Management Response: Recommendation Agreed Action Owner: Malcolm Roughead – Chief Executive Officer Date of Completion: 31 March 2017</p>

Appendix B - Follow-up of prior year actions

Set out below is our follow up of the 2014-15 Annual Report to members recommendations.

Recommendation	Priority	Action taken
<p>1 During 2015-16, there will be significant changes to FReM requirements, including adoption of a Performance Report and Accountability Report.</p> <p>Risk: There is a risk that financial statements may not meet the future Financial Reporting Manual requirements, or focus on key outcomes for VisitScotland</p> <p>Recommendation: The finance team should review the structure and content of the Statement of Accounts, in consultation with key stakeholders such as the Chief Executive and ARC Chair.</p>	Medium	<p>Implemented: The finance team reviewed the structure and content of the Statement of Accounts in 2015-16 to bring the financial statements in line with update FReM requirements.</p>
<p>2 During 2015-16 six members of the Board (including the Chair) will retire from VisitScotland as a result of their second term in office coming to an end.</p> <p>Risk: There is a risk that the Board does not operate effectively due to a loss of expertise and knowledge at this level.</p> <p>Recommendation: VisitScotland should consider the induction and transition processes for new non-executive members to retain expertise and transfer knowledge.</p>	High	<p>Transitional arrangements for the new board members were implemented in 2015-16 as summarised within the governance section of this report. Transitional Arrangements are still ongoing for the Chair, see action points 4 and 5 within appendix A.</p>
<p>3 Audit and Risk Committee membership reduced to three in June 2015. This is below the required membership as outlined in the ARC Terms of Reference.</p> <p>Risk: This could result in issues with the quorate level of two being achieved at all ARC meetings.</p> <p>Recommendation: VisitScotland should seek to appoint a new member of the ARC.</p>	Medium	<p>VisitScotland revised the Audit and Risk Committee Terms of Reference in April 2016 to reduce the minimum number of members from four to three. A fourth member of the ARC was therefore not appointed in 2015-16.</p>
<p>4 A requirement of the Terms of Reference of the Audit and Risk Committee is that there will be a self-assessment exercise each year to review the effectiveness of the Committee.</p> <p>Risk: There is a risk that the ARC does not comply with the SPFM requirements on the operation of Audit Committees.</p> <p>Recommendation: VisitScotland should ensure there is a timely annual assessment of the Audit and Risk Committee to ensure compliance with the SPFM and good practise.</p>	Medium	<p>All VisitScotland ARC members conducted a self-assessment in 2015-16, however the analysis and results of this assessment were unavailable at the time of this Annual Audit Report. Internal Audit are due to audit Corporate and Board Governance in August 2016, therefore management expect the results of the self-assessment to be independently scrutinised at this time.</p>
<p>5 While VisitScotland have considered the financial position from 2016-17 onwards, due to uncertainties surrounding grant settlements there is no formalised medium to long term financial plan.</p> <p>Risk: There is a risk that monies are not used to create long term benefits and are used to manage immediate pressures.</p> <p>Recommendation: VisitScotland should consider their approach to longer term financial planning to identify if there is scope for improvement.</p>	Medium	<p>Continued short term funding allocations from the Scottish Government and significant economic uncertainty has restricted VisitScotland from producing a long term detailed financial plan. Due to increasing uncertainty created by the recent EU referendum results, we have recommended that VisitScotland consider the possibility of scenario planning. See action point 2 within Appendix A.</p>
<p>6 VisitScotland have significant liabilities to their pension schemes.</p> <p>Risk: There is a risk the liabilities attributable to pension funds will crystallise.</p> <p>Recommendation: VisitScotland should consider the option available to mitigate the risk.</p>	Medium	<p>VisitScotland have made good progress in securing a written covenant for the Local Government Pension Funds, and are in the final stages of an IRM for the British Tourism Board Pension Scheme. If a settlement is not reached from the IRM, direct government intervention may be required. See action point 1 within Appendix A.</p>

Appendix C - Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
VisitScotland Audit	71,000	71,000
Total audit fees	71,000	71,000

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practice Board's Ethical Standards.



Appendix D – Draft Independent Auditor’s Report

Independent auditor’s report to the members of VisitScotland, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of VisitScotland for the year ended 31 March 2016 under the Development of Tourism Act 1969. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flow, the Statement of Changes in Taxpayers’ Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2015-16 Government Financial Reporting Manual (the 2015-16 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer’s Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Appendix D

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with the Development of Tourism Act 1969 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2016 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2015/16 FReM; and
- have been prepared in accordance with the requirements of the Development of Tourism Act 1969 directions made thereunder by the Scottish Ministers.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report and Accountability Report for the financial year for which the financial statements are prepared, is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Robin Baker, (for and on behalf of Grant Thornton UK LLP)

7 Exchange Crescent
Edinburgh
EH3 8AN

October 2016

Appendix E – Draft Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Edinburgh
EH3 8AN

Date

Dear Sirs

VisitScotland
Financial Statements for the Year Ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of VisitScotland for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000, the Development of Tourism Act 1969, the Government Financial Reporting Manual (the FReM) and the Scottish Public Finance Manual (SPFM).

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities, as set out in the Development of Tourism Act 1969 for the preparation of the financial statements, the Public Finance and Accountability (Scotland) Act 2000, the FReM and International Financial Reporting Standards. In particular, the financial statements give a true and fair view of VisitScotland's state of affairs in accordance therewith.
- ii. We have complied with the requirements of all statutory directions affecting VisitScotland and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iv. We are satisfied that the material judgments used in the preparation of financial statements are soundly based, in accordance with International Financial Reporting Standards and the FReM, and adequately disclosed in the financial statements. There are no other material judgments that need to be disclosed.
- v. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of VisitScotland have been assigned, pledged or mortgaged
 - c. there are no material prior year changes or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vi. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and International Financial Reporting Standards.
- vii. All events subsequent to the date of the financial statements and for which the FReM and International Financial Reporting Standards requires adjustment or disclosure have been adjusted or disclosed.

Appendix E

- viii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the FReM.
- ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

- x. We have provided you with:
 - a. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- xi. We have confirmed there were no deficiencies in internal control of which management is aware.
- xii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xiii. We have considered the risk that the financial statements may be materially misstated as a result of fraud and am not aware of any such fraud or misstatement.
- xiv. We are not aware of any fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xv. We have confirmed we have no knowledge of any allegations of fraud, or suspected fraud, affecting VisitScotland's financial statements communicated by employees, former employees, regulators or others.
- xvi. We have confirmed to you there are no known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xvii. We have disclosed to you the identity of all of VisitScotland's related parties and all the related party relationships and transactions of which we are aware.
- xviii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Report

- xix. The disclosures within the Annual Report fairly reflect our understanding of VisitScotland's financial and operating performance over the period covered by the financial statements.

Annual Governance Statement

- xx. We are satisfied that the Annual Governance Statement (AGS) fairly reflects VisitScotland's risk assurance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Approval

The approval of this letter of representation was minuted by VisitScotland's Board at its meeting on 26 August 2016.

Yours faithfully,

Malcolm Roughead
Chief Executive

Signed on behalf of the Board
Date:



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